STATEMENT
OF
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BEFORE
THE
COMMITTEE ON VETERANS' AFFAIRS
UNITED STATES SENATE

APRIL 13, 1999

Mr. Chairman and members of the Committee, healthcare in this country continues to rapidly transform itself due to competition, managed care, advances in healthcare technology and other forces. This transformation is taking place in an atmosphere that demands higher quality of care, greater health plan accountability, and improved efficiency of operations. I believe the Veterans Health Administration (VHA) has risen to these challenges, and in the last four years VHA has made significant strides in improving quality, patient satisfaction, efficiency, and accountability. However, re-engineering the veterans healthcare system is an on-going process, and more remains to be accomplished.

To become competitive in quality and service satisfaction, and to achieve necessary financial discipline, VHA has embarked on a more business-like approach to operations that has forced us to take tough, but necessary actions. Our actions have resulted in significant efficiencies while we have concurrently achieved significant quality improvements. Among the changes that have occurred are:

- Implementation of a network structure and integration of facilities, with its consequent greater focus on meeting the needs of both individuals and the population of veterans;
- expansion of outpatient treatment capacity, including establishing about 300 new Community Based Outpatient Clinics;
- changes in facility missions;
- consolidation of programs and services;
- implementation of a capitation-based resource allocation system;
- reduction of staff (attrition, reductions-in-force (RIFs), staffing adjustments (SAs), buyouts and early retirement) ;
- closure of excess hospital acute care beds;
- elimination of much paperwork; and
- streamlining of processes and improvements in service delivery.

Intensified budget pressures will likely accelerate VHA's re-engineering efforts, requiring greater cost savings. If VHA is to continue its efforts in maximizing efficiencies and quality, it must have the tools required to carry them out. We believe that we must use all the available mechanisms, including RIF and staffing adjustment authority, to re-engineer our workforce, since staffing accounts for about two-thirds of VHA expenditures.

Before going further, however, let me emphasize that I believe VHA is extremely fortunate in having a workforce that is dedicated and highly committed to carrying forward our mission of providing medical care and other services to veterans. Every involuntary employee action that VA must take to restructure the make-up of our workforce is an action that I would strongly prefer to avoid. Indeed, I deeply regret it when our transformation adversely impacts even a single employee. For this reason, buyout legislation would be particularly useful in mitigating the adverse effects of forced separations under RIFs or SAs.

Buyout Legislation

Mr. Chairman, you asked how our recently approved RIFs and SAs correlate with any future buyout legislation. VHA has conducted buyout programs four times since 1994, with the most recent one concluding on December 31, 1997. VHA has utilized over 7,000 buyouts in an aggressive, innovative approach to restructure our workforce to meet the challenge of changing skill requirements and new healthcare demands, and to reduce our employment to supportable levels, minimizing reductions-in-force and staffing adjustments. We believe the buyout option is a much more humane and positive management tool and more cost-effective than either reductions-in-force or staffing adjustments. It also supports our efforts to function and be perceived as "an employer of choice" in an increasingly competitive labor market for healthcare professionals.

VA has developed a legislative proposal for multiple-year buyout authority, which would enable management to use buyouts as a planning tool. To support this proposal, VHA surveyed its field facilities, as it has in each prior buyout program, to determine how many buyout slots the facility could utilize. VA transmitted the original proposal to the 105th Congress on September 3, 1998. VA will officially transmit its updated proposal to the 106th Congress this week.

To ensure that the requests were based on a strategic plan, each facility was required to identify the number of slots it could offer to employees whose positions would be abolished for one of the following reasons:

- facility was being integrated with another facility;
- service was being consolidated with another service (e.g., consolidating a Fiscal Service with an Acquisition and Materiel Management Service to establish a single Business Office);
- service was being consolidated with that of another facility (e.g., setting up one Human Resource Office to serve all four facilities in Chicago, IL, instead of having four separate Human Resource offices);
- function is being contracted-out or performed on a fee-basis;
- supervisory position is being eliminated to broaden span of control;
- in-patient services are being discontinued; or

- a title 38 position becomes unnecessary because of changes in case mix.

In each case, VHA managers would be required to eliminate the specific position encumbered by the employee who received the buyout. This ensures that the actual position is no longer necessary, and that the buyout is not a "Golden Handshake" for an employee who was going to resign or retire in any event, and who would have to be replaced for VHA to continue to provide some essential function.

We believe that this is a responsible, conservative, and effective way to implement buyouts. This is the process we have used to implement earlier buyouts that have received favorable comments in the past.

Reductions-in-Force/Staffing Adjustments

VA has recently approved the reductions-in-force and/or staffing adjustments at 11 VHA facilities. These actions could potentially eliminate as many as 926 positions.

For the record, these VHA facilities are: Northport, Albany, Bath, the Western New York Health Care System, Canandaigua, the New Jersey Health Care System, the South Texas Health Care System, Hines, the Chicago Health Care System, Sheridan, and the Hudson Valley Health Care System.

These same facilities have requested a total of 406 buyout slots. Please note, both the RIF and buyout figures, which were gathered in May 1998, would need to be reevaluated in light of more current budget information. These 11 approved proposals, plus eight additional packages in various stages of review in Headquarters, were submitted by facilities and their respective Veterans Integrated Service Networks in late fiscal year 1998 and earlier this fiscal year.

Personnel Planning

In all budget years, facilities and VISNs are encouraged to continue efforts to identify potential staffing efficiencies through restructuring. Initiatives such as internal reorganizations, changes in missions and programs, elimination or reduction of services, consolidations of services or functions between two or more facilities, reallocation of workload, or redirection of staff and other resources, etc., occur at VA facilities across the system. This is a necessary part of sound, healthcare management that serves to improve the delivery of services to patients.

Mr. Chairman, you asked me to review VHA's current personnel evaluation process. Specifically at the local level, facility managers continually assess their organizational structure to maximize the return on investment (ROI) of their resources, recognizing that ROI in VHA is the amount of healthcare and other services that we can provide. The assessment considers:

authorized/projected budgets, legislation, technology, veteran population changes, the lack or excess of general or specialized health care skills and local health care market. Fluctuations in any of these areas may require changes in staffing patterns, staff levels, or employee work assignments. Local managers utilize a variety of options to meet changing patient, health care, labor market and community patterns.

Early retirement, employee placement programs, grade and pay retention, relocation expenses and job re-engineering costs are all tools that are frequently used by facility management to lessen the negative impact to individual employees. However, after assessing and perhaps utilizing each of these options, local management may determine that requisite changes can only be accomplished through the use of involuntary separations (RIF/SA).

Management then assesses the existing staffing structure on a position-by-position (or type-by-type) basis. This rigorous review provides information of where there are positions no longer needed or where a different staffing mix is more desirable to improve care or service quality and to reduce costs. Facilities then identify the universe of positions to be eliminated by position title, occupational series and grade level, together with an explanation for the basis for the action. After running a preliminary RIF, it may be found that more than the originally targeted number of positions is required because of bump and retreat rights that will occur.

Attrition of staff and monthly turnover patterns are also evaluated. Seasonal variations in service demand also may be known, so that by waiting a period of time and not filling certain positions as they become vacant, facility management may be able to minimize or negate the need to request RIF/SA authority or might be able to exercise other options.

The "costs" of conducting a RIF/SA must also be determined. The full costs of implementing a RIF include:

- grade and pay retention of bumped employees,
- severance pay,
- lump sum terminal annual leave,
- unemployment compensation,
- out-placement services,
- personnel processing, and
- grievances and appeals.

Thus, depending on when a RIF/SA is completed during the fiscal year, and the grade level of impacted employees, RIFs/SAs may actually end up costing money instead of generating savings in the fiscal year that the action is taken.

Again, let me make clear, because of their detrimental impact on employees, RIFs and SAs are utilized in VHA as a last resort. It should be noted, however, that RIF/SA authority does enable local management to re-

engineer and streamline work processes and organizational structures and therefore utilize their human and financial resources more effectively.

If the buyout legislation were enacted, many VHA facilities would be able to mitigate the need for reduction-in-force or staffing adjustments, with much less adverse impact on both continuity of operations and staff morale.

While the buyout option depends upon the willingness of individual employees to accept buyouts to be effective (i.e., an employee cannot be coerced to accept a buyout), our impression is that the number of employees interested in this option would enable management to achieve the desired restructuring without having to rely as much on the tumultuous and morale destroying RIF/SA options. Also, we are pleased that we currently have the option of offering early retirements. This authority expires at the end of this fiscal year.

The buyout option also would enable other facilities that are contemplating the reductions-in-force or staffing adjustments to reduce staffing to supportable levels to avoid those approaches entirely. These facilities could then achieve the required right-sizing on a more constructive basis that can be perceived as a "win-win" situation for both the facility and its employees. This would be true particularly if the legislation contains provisions for multiple years, so that

management could plan for necessary changes in employment due both to financial resources and changes in facility missions and case mix.

VHA is committed to maintaining a stable workforce through such measures as forecasting workload, estimating turnover and attrition rates, and analyzing local labor markets. It remains VHA's goal to manage the size and composition of its workforce pro-actively, utilizing RIF/SA procedures only when alternative approaches do not reasonably appear to achieve management goals or ensure effective use of scarce resources. I look forward to working with you to provide VA managers with buyout authority.

I would be pleased to now try to answer your questions.